DHARMAPURAM ADHINAM ARTS COLLEGE

DHARMAPURAM-MAYILADUTHURAI

GLOBAL BUSINESS MANAGEMENT

Meaning of International business

International business refers to the trade of goods, services, technology, capital and/or knowledge across national borders and at a global or transnational scale.

Forms/Types of international business

1. Exporting: Exporting means producing/procuring in the home market and selling in the foreign market. Exporting is not an activity just for large multinational enterprises; small firms can also make money by exporting. In recent days, exporting has become easier though it remains a challenge for many firms.
2. Licensing: A licensing is an agreement whereby a licensor grants the rights to intangible property (patents, intentions, formulas, processes, designs, copyrights and trademarks) to another entity (licensee) for a specified period and in return the license or receives a royalty/fee from the licensee.
3. Franchising: Franchising is basically o specialized form of licensing in which the franchiser not only sells intangible property to the franchisee but also insists that the franchisee agrees to abide by strict rules as to how it does business.
4. Joint venture: A joint venture entails establishing a firm that is jointly owned by two or more independent firms.
5. Management Contracts: A firm in one country agrees to operate facilities or provide other management services to a firm in another country for an agreed upon fees.
6. Turnkey projects: In a turnkey project, the contractor agrees to handle every details of the project for a foreign client, including the training of operating personnel. At completing of the contract the foreign client handles the ‘key’ of a plant that is ready for full operation
7. Strategic international alliances: A strategic international alliance is a

business relationship established by two or more companies to cooperate out of mutual need and to share risk in achieving a common objective.

8. Direct foreign investment: Direct foreign investment is another important form of international business. Companies may manufacture locally to capitalize on low cost labor, to avoid high import taxes, to reduce the high cost of transportation to market, to gain access to raw materials or gaining market entry.

Difference between Domestic and International business

	Domestic Business	International Business
1. Geographic Area	It is carried out within the national or geographic borders of the Country.	It is carried out across borders and national territories of a country.
2. Restrictions	Tariffs and quotas are not present and very few local restrictions are imposed on a domestic business.	Many restrictions are imposed while doing business internationally or entering a foreign market e.g. Tariff and non -tariff barriers, exchange controls, local taxes etc.
3. Culture	There is less difference in the market culture of local areas and regions within a country. The market culture is relatively uniform	The market culture widely varies among different nations and regions.
4. Risk	Risk factor is less.	Risk factor is high.
5. Currency	A domestic business deals in a single currency.	An international business deals in multiple currencies.
6. Human Resource	A domestic business can succeed with human resource with minimum skill and	Multilingual, multi-strategic and multicultural human resource is

	knowledge Employees are usually from the same country	necessary for smooth operations of an international business. Global human resource practices are carried out in an international business.
7. Promotion	Domestic marketing and advertising strategies are used	Marketing and advertising strategies vary from country to country due to language barriers
8. Pricing	Same price is charged for similar products	Price differentiation is carried out
9. Investment	Less capital investment is involved	Huge capital investment is involved
10. Quality	Quality standards are low	Quality standards are very high. Global standards are set
11. Regulations	Only local regulations are applicable	International and host country regulations are applicable
12. Research	It is easy to conduct business research, demand analysis and customer survey.	It is very difficult and costly. Reliability of information depends upon the individual country.
13. Cost Advantage	Do not enjoy Cost advantage	Advantage of location economies and cheap resources are available.
14. Environment	A domestic business is only affected by the variables in the domestic environment.	Domestic, foreign and international environment factors affect an international business.
15.	The level of development may	Each country may be at a

Development	be same throughout the domestic market.	different level of development.

Economic environment

The **economic environment** refers to all the economic factors that affect commercial and consumer behavior. The economic environment consists of all the external factors in the immediate marketplace and the broader economy.

The political environment

The political environment of business refers to the political or government actions that impact business operations. The political factors usually go hand in hand with the legal ones and are generally viewed as the non-market forces that impact businesses.

A cultural environment

A cultural environment is a set of beliefs, practices, customs and behaviors that are found to be common to everyone that is living within a certain population. Cultural environments shape the way that every person develops, influencing ideologies and personalities.

International Economic Environment

The international economic environment can be described as the global factors that are outside of the control of individual organizations but that can affect the way that businesses operate. These factors include unemployment rates, inflation rates, and labor costs.

ECONOMIC ENVIRONMENT

Economic environment refers to all those economic factors which have a bearing on the functioning of a business unit. Business depends on the economic environment for all the needed inputs. It also depends on the economic environment to sell the finished goods. Naturally, the dependence of business on the economic environment is total and it is not surprising because, as it is rightly said, business is one unit of the total economy. It is difficult to be precise about the factors which constitute the economic environment of a country. But still there are some factors which have considerable influence. These factors are :-

(a) Growth strategy
(b) Economic system
(c) Economic planning
(d) Industry

(e) Agriculture
(f) Infrastructure
(g) Financial and fiscal sector
(h) Removal of regional imbalances
(i) Price and distribution control
(j) Economic Reforms

Out of the above said factors, two are of prime importance:-

1. Economic system
2. Industry

1. Economic System : The scope of a private business and the extent of government regulation of economic activities depend to a very large extent on the nature of economic system, which is an important part of business environment. Broadly the economic system is divided into three groups.

(a) Capitalism
(b) Socialism
(c) Communism

(a) Capitalism

The system of capitalism stresses the philosophy of individualism believing in private ownership of all agents of production, in private sharing of distribution processes that determine the functions rewards of each participant, and in individual expression of consumer choice through a free market place. The capitalist system is also known as free enterprise economy and market economy. Two types of capitalism may be distinguished, viz.,

(i) The old, laissez-fair capitalism, where government intervention in the economy is absent or negligible; and
(ii) The modern, regulated or mixed capitalism, where there is a substantial amount of government intervention.

(b) Socialism

Under socialism, the tools of production are to be organized, managed and owned by the government, with the benefits occurring to the public. A strong public sector, agrarian reforms, control over private wealth and investment and national self reliance are the other planks of socialism. Socialism does not involve an equal division of existing wealth among the people, but advocates the egalitarian principle. It believes in providing employment to all and emphasizes suitable rewards to the efforts put in by every worker. Also called fabian socialism, this philosophy is followed in our country and other social democratic countries in the world.

(c) Communism

Communism goes further to abolish all private property and property rights to income. The state would own and direct all instruments of production. Sharing in the distributive process would have no relationship to private property since this right would not exist. Alternatively called maxims, communism was followed in Russia, China and East European Countries.

Political Environment

POLITICAL ENVIRONMENT

The influence of political environment of business is enormous. The political system prevailing in a country decides, promotes, fosters, encourages, shelters, directs and controls the business activities of those countries. A political system which is stable, honest, efficient and dynamic and which ensures political participation of the people, and assures personal security to the citizens, is primary factor for growth of any business.

The doctrine of fascism and erstwhile Russian Communism Russian Communism are example of totalitarianism. India is a democratic country. Our political system comprises three vital institutions :-

1. Legislature
2. Executive or government
3. Judiciary

1. Legislature :

Out of three, legislature is most powerful political institution vested with such powers as policy making, law-makings, budget approving, executive control and acting as mirror of public opinion. The influence of legislature on business is considerable. It decides such vital aspects as the type of business activities, the country should have, who should own them, what should be their size of operation, what should happen to their earnings and other related factors.

2. Executive or government

Government as Executive Also called the ‘state’ the term government refers to “the centre of political authority having the power to govern those it serves”. For business consideration, we should know what are government’s responsibilities to business. Specifically, government’s responsibilities towards business are as follows :

a) Establishment and enforcement of law
b) Maintenance of order
c) Money and credit
d) Orderly growth
e) Infrastructure
f) Information
g) Assistance to small industries

h) Transfer of technology

i) Tariffs and Quotas

3. Judiciary

The third political institution is judiciary. Judiciary determines the manner in which the work of executives has been fulfilled. It settles the relationship between private citizens, on one hand, and between citizens and the government upon the other. The power of the judiciary are of dual type :

1. The authority of the courts to settle legal disputes.
2. Judicial review - the authority of the courts to rule on the constitutionality of legislation.

<u>political factors affecting business</u>:

1. Bureaucracy
2. Corruption level
3. Freedom of the press
4. Tariffs
5. Trade control
6. Education Law
7. Anti-trust law
8. Employment law
9. Discrimination law
10. Data protection law
11. Environmental Law
12. Health and safety law
13. Competition regulation
14. Regulation and deregulation
15. Tax policy (tax rates and incentives)
16. Government stability and related changes
17. Government involvement in trade unions and agreements
18. Import restrictions on quality and quantity of product
19. Intellectual property law (Copyright, patents)
20. Consumer protection and e-commerce
21. Laws that regulate environment pollution

Cultural Environment

In its narrow sense culture is understood to refer to such activities as dance, drama, music and festivals. In its true sense culture is understood as that complex whole which includes knowledge, belief, art, morals, law, customs and other capabilities and habits acquired by individual as a member of a society. The culture has two main

characteristics :

i) Shared value

ii) Passage of time Culture of a society is shared by its members.

Cultural ethos are passed from one generation to other generation. It is not confined to one particular period of time. The interface between business and culture can be summarized as follows :

a) Culture creates people.

b) Culture determines goods and services.

c) It defines people's attitude to business and to work.

d) Explains the spirit of collectivism and individualism.

e) Defines whether people are Ambitions or complacent.

f) Education

g) Family

h) Authority

i) Marriage

j) Time Dimension

k) Cultural Resources.

All the above said factors influence the business in one or other way. Hence it is important to understand all these factors for a successful business.

Recent World Trade and Foreign Investment Trends.

1) Forced Dynamism:

International trade is forced to succumb to trends that shape the global political, cultural, and economic environment. International trade is a complex topic, because the environment it operates in is constantly changing. First, businesses are constantly pushing the frontiers of economic growth, technology, culture, and politics which also change the surrounding global society and global economic context. Secondly, factors external to international trade (e.g., developments in science and information

technology) are constantly forcing international trade to change how they operate.

2) Cooperation among Countries:

Countries cooperate with each other in thousands of ways through international organisations, treaties, and consultations. Such cooperation generally encourages the globalization of business by eliminating restrictions on it and by outlining frameworks that reduce uncertainties about what companies will and will not be allowed to do. Countries cooperate:

i) To gain reciprocal advantages,

ii) To attack problems they cannot solve alone, and

iii) To deal with concerns that lie outside anyone's territory.

Agreements on a variety of commercially related activities, such as transportation and trade, allow nations to gain reciprocal advantages.

3) Liberalization of Cross-border Movements:

Every country restricts the movement across its borders of goods and services as well as of the resources, such as workers and capital, to produce them. Such restrictions make international trade cumbersome; further, because the restrictions may change at any time, the ability to sustain international trade is always uncertain. However, governments today impose fewer restrictions on cross-border movements than they did a decade or two ago, allowing companies to better take advantage of international opportunities. Governments have decreased restrictions because they believe that:

i) So-called open economies (having very few international restrictions) will give consumers better access to a greater variety of goods and services at lower prices,

ii) Producers will become more efficient by competing against foreign companies, and

iii) If they reduce their own restrictions, other countries will do the same.

4) Transfer of Technology:

Technology transfer is the process by which commercial technology is disseminated. This will take the form of a technology transfer transaction, which may or

may not be a legally binding contract, but which will involve the communication, by the transferor, of the relevant knowledge to the recipient. It also includes non-commercial technology transfers, such as those found in international cooperation agreements between developed and developing states. Such agreements may relate to infrastructure or agricultural development, or to international; cooperation in the fields of research, education, employment or transport.

5) Growth in Emerging Markets:

The growth of emerging markets (e.g., India, China, Brazil, and other parts of Asia and South America especially) has impacted international trade in every way. The emerging markets have simultaneously increased the potential size and worth of current major international trade while also facilitating the emergence of a whole new generation of innovative companies. According to “A special report on innovation in emerging markets” by The Economist magazine, “The emerging world, long a source of cheap la, now rivals the rich countries for business innovation”.

UNIT - II

Indian Export Performance – Problems in export trade – Export promotion in India –
Export promotion incentives – EPZ & FTZ – 100% EOU – Export Houses – Star Export Houses -Trading Houses – Star Trading Houses – Super Star Trading Houses.

Indian Export Performance

Foreign trade plays a significant role in the economy of a country. It helps to utilize natural resources and export surplus production. Proper regulation of foreign trade can contribute significantly in generating employment and output. It forces the sustainability of international business. Foreign Trade is the main source of export earnings. So, all the nations from time to time announce various schemes and EXIM policy to increase their share in the world export market. India is not an exception to that. The country has also announced various schemes and policies to enhance her export performance.

Benefits of International Business

Notwithstanding greater complexities and risks, international business is important to both nations and business firms. It offers them several benefits. Growing realisation of these benefits over time has in fact been a contributory factor to the expansion of trade and investment amongst nations, resulting in the phenomenon of globalisation. Some of the benefits of international business to the nations and business firms are discussed below.

Benefits to Countries

(i) **Earning of foreign exchange:** International business helps a country to earn

foreign exchange which it can later use for meeting its imports of capital goods, technology, petroleum products and fertilisers, pharmaceutical products and a host of other consumer products which otherwise might not be available domestically.

(ii) More efficient use of resources: As stated earlier, international business operates on a simple principle — produce what your country can produce more efficiently, and trade the surplus production so generated with other countries to procure what they can produce more efficiently. When countries trade on this principle, they end up producing much more than what they can when each of them attempts to produce all the goods and services on its own. If such an enhanced pool of goods and services is distributed equitably amongst nations, it benefits all the trading nations.

(iii) Improving growth prospects and employment potentials: Producing solely for the purposes of domestic consumption severely restricts a country's prospects for growth and employment. Many countries, especially the developing ones, could not execute their plans to produce on a larger scale, and thus create employment for people because their domestic market was not large enough to absorb all that extra production.

(iv) Increased standard of living: In the absence of international trade of goods and services, it would not have been possible for the world community to consume goods and services produced in other countries that the people in these countries are able to consume and enjoy a higher standard of living.

Benefits to Firms

(i) Prospects for higher profits: International business can be more profitable than the domestic business. When the domestic prices are lower, business firms can earn more profits by selling their products in countries where prices are high.

(ii) Increased capacity utilisation: Many firms setup production capacities for their products which are in excess of demand in the domestic market. By planning overseas expansion and procuring orders from foreign customers,

they can think of making use of their surplus production capacities and also improving the profitability of their operations. Production on a larger scale often leads to economies of scale, which in turn lowers production cost and improves per unit profit margin.

(iii) Prospects for growth: Business firms find it quite frustrating when demand for their products starts getting saturated in the domestic market. Such firms can considerably improve prospects of their growth by plunging into overseas markets. This is precisely what has prompted many of the multinationals from the developed countries to enter into markets of developing countries.

(iv) Way out to intense competition in domestic market: When competition in the domestic market is very intense, internationalisation seems to be the only way to achieve significant growth. Highly competitive domestic market drives many companies to go international in search of markets for their products. International business thus acts as a catalyst of growth for firms facing tough market conditions on the domestic turf.

(v) Improved business vision: The growth of international business of many companies is essentially a part of their business policies or strategic management. The vision to become international comes from the urge to grow, the need to become more competitive, the need to diversify and to gain strategic advantages of internationalisation.

MODES OF ENTRY INTO INTERNATIONAL BUSINESS

Simply speaking, the term mode means the manner or way. The phrase 'modes of entry into international business', therefore, means various ways in which a company can enter into international business. While discussing the meaning and scope of international business, we have already familiarised you with some of the modes of entry into international business.

1 Exporting and Importing

Exporting : Exporting refers an export in international trade is a good or service produced in one country that is sold into another country.

Importing: An import refers to a product or service produced in abroad that is

purchased in your home country. Countries are most likely to import goods or services that their domestic industries cannot produce as efficiently or cheaply as the exporting country.

There are two important ways in which a firm can export or import products: direct and indirect exporting/importing. In the case of direct exporting/importing, a firm itself approaches the overseas buyers/ suppliers and looks after all the formalities related to exporting/ importing activities including those related to shipment and financing of goods and services.

Advantages of exporting:

1. As compared to other modes of entry, exporting/importing is the easiest way of gaining entry into international markets.
2. It is less complex an activity than setting up and managing joint-ventures or wholly owned subsidiaries abroad.
3. Exporting/importing is less involving in the sense that business firms are not required investing that much time and money as is needed when they desire to enter into joint ventures or set up manufacturing plants and facilities in host countries.
4. Since exporting/importing does not require much of investment in foreign countries, exposure to foreign investment risks is nil or much lower than that is present when firms opt for other modes of entry into international business.

Limitations of exporting/ importing:

1. Since the goods physically move from one country to another, exporting/importing involves additional packaging, transportation and insurance costs. Especially in the case of heavy items, transportation costs alone become an inhibiting factor to their exports and imports.
2. On reaching the shores of foreign countries, such products are subject to custom duty and a variety of other levies and charges. Taken together, all these expenses and payments substantially increase product costs and make them less competitive.

3. Exporting is not a feasible option when import restrictions exist in a foreign country. In such a situation, firms have no alternative but to opt for other entry modes such as licensing/franchising or joint venture which makes it feasible to make the product available by way of producing and marketing it locally in foreign countries.
4. Export firms basically operate from their home country. They produce in the home country and then ship the goods to foreign countries. Except a few visits made by the executives of export firms to foreign countries to promote their products, the export firms in general do not have much contact with the foreign markets.
5. As usually is the case, firms start their overseas operations with exports and imports, and later having gained familiarity with the foreign market operations switch over to other forms of international business operations.

2 Contract Manufacturing

Contract manufacturing refers to a type of international business where a firm enters into a contract with one or a few local manufacturers in foreign countries to get certain components or goods produced as per its specifications. Contract manufacturing, also known as outsourcing, can take three major forms:

1. Production of certain components such as automobile components or shoe uppers to be used later for producing final products such as cars and shoes;
2. Assembly of components into final products such as assembly of hard disk, mother board, floppy disk drive and modem chip into computers; and
3. Complete manufacture of the products such as garments. The goods are produced or assembled by the local manufacturers as per the technology and management guidance provided to them by the foreign company.

3 Licensing and Franchising

Licensing

Licensing is a contractual arrangement in which one firm grants access to its patents, trade secrets or technology to another firm in a foreign country for a fee called

royalty. The firm that grants such permission to the other firm is known as licensor and the other firm in the foreign country that acquires such rights to use technology or patents is called the licensee.

Cross-licensing

Sometimes there is mutual exchange of knowledge, technology and/or patents between the firms which is known as cross-licensing.

Franchising

Franchising is a term very similar to licensing. A franchising agreement too involves grant of rights by one party to another for use of technology, trademark and patents in return of the agreed payment for a certain period of time. The parent company is called the franchiser and the other party to the agreement is called franchisee.

4 Joint Ventures Joint venture

Joint Ventures Joint venture is a very common strategy for entering into foreign markets. A joint venture means establishing a firm that is jointly owned by two or more otherwise independent firms. In the widest sense of the term, it can also be described as any form of association which implies collaboration for more than a transitory period. A joint ownership venture may be brought about in three major ways:

(i) Foreign investor buying an interest in a local company

(ii) Local firm acquiring an interest in an existing foreign firm

(iii) Both the foreign and local entrepreneurs jointly forming a new enterprise.

EXPORT-IMPORT PROCEDURES AND DOCUMENTATION

A major distinction between domestic and international operations is the complexity of the latter. Export and import of goods is not that straight forward as buying and selling in the domestic market. Since foreign trade transactions involves movement of goods across frontiers and use of foreign exchange, a number of formalities are needed to be performed before the goods leave the boundaries of a country and enter into that of another. Following sections are devoted to a discussion of

major steps that need to be undertaken for completing export and import transactions.

Export Procedure

The number of steps and the sequence in which these are taken vary from one export transaction to another. Steps involved in a typical export transaction are as follows.

(i) Receipt of enquiry and sending quotations: The prospective buyer of a product sends an enquiry to different exporters requesting them to send information regarding price, quality and terms and conditions for export of goods. Exporters can be informed of such an enquiry even by way of advertisement in the press put in by the importer. The exporter sends a reply to the enquiry in the form of a quotation — referred to as proforma invoice. The proforma invoice contains information about the price at which the exporter is ready to sell the goods and also provides information about the quality, grade, size, weight, mode of delivery, type of packing and payment terms.

(ii) Receipt of order or indent: In case the prospective buyer (i.e., importing firm) finds the export price and other terms and conditions acceptable, it places an order for the goods to be despatched. This order, also known as indent, contains a description of the goods ordered, prices to be paid, delivery terms, packing and marking details and delivery instructions.

(iii) Assessing the importer's creditworthiness and securing a guarantee for payments: After receipt of the indent, the exporter makes necessary enquiry about the creditworthiness of the importer. The purpose underlying the enquiry is to assess the risks of non payment by the importer once the goods reach the import destination. To minimise such risks, most exporters demand a letter of credit from the importer. A letter of credit is a guarantee issued by the importer's bank that it will honour payment up to a certain amount of export bills to the bank of the exporter. Letter of credit is the most appropriate and secure method of payment adopted to settle international transactions.

(iv) Obtaining export license: Having become assured about payments, the exporting firm initiates the steps relating to compliance of export regulations. Export of goods in India is subject to custom laws which demand that the export

firm must have an export license before it proceeds with exports.

Important pre-requisites for getting an export license are as follows:

• Opening a bank account in any bank authorized by the Reserve Bank of India (RBI) and getting an account number.

• Obtaining Import Export Code (IEC) number from the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority.

• Registering with appropriate export promotion council.

• Registering with Export Credit and Guarantee Corporation (ECGC) in order to safeguard against risks of non payments. An export firm needs to have the Import Export Code (IEC) number as it needs to be filled in various exports/ import documents.

For obtaining the IEC number, a firm has to apply to the Director General for Foreign Trade (DGFT) with documents such as exporter/importer profile, bank receipt for requisite fee, certificate from the banker on the prescribed form, two copies of photographs attested by the banker, details of the non-resident interest and declaration about the applicant's non association with caution listed firms.

(v) Obtaining pre-shipment finance:

Once a confirmed order and also a letter of credit have been received, the exporter approaches his banker for obtaining pre-shipment finance to undertake export production. Reshipments finance is the finance that the exporter needs for procuring raw materials and other components, processing and packing of goods and transportation of goods to the port of shipment.

(vi) Production or procurement of goods:

Having obtained the pre shipment finance from the bank, the exporter proceeds to get the goods ready as per the specifications of the importer. Either the firm itself goes in for producing the goods or else it buys from the market.

(vii) Pre-shipment inspection:

The Government of India has initiated many steps to ensure that only good quality products are exported from the country. One such step is compulsory inspection of certain products by a competent agency as designated by the government. The government has passed Export Quality Control and Inspection Act, 1963 for this purpose.

(viii) Excise clearance:

As per the Central Excise Tariff Act, excise duty is payable on the materials used in manufacturing goods. The exporter, therefore, has to apply to the concerned Excise Commissioner in the region with an invoice. If the Excise Commissioner is satisfied, he may issue the excise clearance. But in many cases the government exempts payment of excise duty or later on refunds it if the goods so manufactured are meant for exports

(ix) Obtaining certificate of origin:

Some importing countries provide tariff concessions or other exemptions to the goods coming from a particular country. For availing such benefits, the importer may ask the exporter to send a certificate of origin. The certificate of origin acts as a proof that the goods have actually been manufactured in the country from where the export is taking place. This certificate can be obtained from the trade consulate located in the exporter's country.

(x) Reservation of shipping space:

The exporting firm applies to the shipping company for provision of shipping space. It has to specify the types of goods to be exported, probable date of shipment and the port of destination. On acceptance of application for shipping, the shipping company issues a shipping order. A shipping order is an instruction to the captain of the ship that the specified goods after their customs clearance at a designated port be received on board.

(xi) Packing and forwarding:

The goods are then properly packed and marked with necessary details such as name and address of the importer, gross and net weight, port of shipment and destination, country of origin, etc. The exporter then makes necessary arrangement for transportation of goods to the port. On loading goods into the railway wagon, the railway authorities issue a 'railway receipt' which serves as a title to the goods. The exporter endorses the railway receipt in favour of his agent to enable him to take delivery of goods at the port of shipment.

(xii) Insurance of goods: The exporter then gets the goods insured with an insurance company to protect against the risks of loss or damage of the goods due to the perils of the sea during the transit.

(xiii) Customs clearance:

The goods must be cleared from the customs before these can be loaded on the ship. For obtaining customs clearance, the exporter prepares the shipping bill. Shipping bill is the main document on the basis of which the customs office gives the permission for export. Shipping bill contains particulars of the goods being exported, the name of the vessel, the port at which goods are to be discharged, country of final destination, exporter's name and address, etc.

Five copies of the shipping bill along with the following documents are then submitted to the Customs Appraiser at the Customs House:

- Export Contract or Export Order
- Letter of Credit
- Commercial Invoice
- Certificate of Origin
- Certificate of Inspection, where necessary
- Marine Insurance Policy

After submission of these documents, the Superintendent of the concerned port trust is approached for obtaining the carting order. Carting order is the instruction to the staff at the gate of the port to permit the entry of the cargo inside the dock.

(xiv) Payment of freight and issuance of bill of lading:

The C&F agent surrenders the mates receipt to the shipping company for computation of freight. After receipt of the freight, the shipping company issues a bill of lading which serves as an evidence that the shipping company has accepted the goods for carrying to the designated destination. In the case the goods are being sent by air, this document is referred to as airway bill.

(xv) Preparation of invoice:

After sending the goods, an invoice of the despatched goods is prepared. The invoice states the quantity of goods sent and the amount to be paid by the importer. The C&F agent gets it duly attested by the customs.

(xvi) Securing payment:

After the shipment of goods, the exporter informs the importer about the shipment of goods. The importer needs various documents to claim the title of goods on their arrival at his/her country and getting them customs cleared. The documents that are needed in this connection include certified copy of invoice, bill of lading, packing list, insurance policy, certificate of origin and letter of credit.

Import Procedure

Import trade refers to purchase of goods from a foreign country. Import procedure differs from country to country depending upon the country's import and custom policies and other statutory requirements. The following paragraphs discuss various steps involved in a typical import transaction for bringing goods into Indian Territory.

(i) Trade enquiry: The first thing that the importing firm has to do is to gather information about the countries and firms which export the given product. The importer can gather such information from the trade directories and/or trade associations and organisations. Having identified the countries and firms that export the product, the importing firm approaches the export firms with the help of a trade enquiry for collecting information about their export prices and terms of exports.

(ii) Procurement of import license: There are certain goods that can be imported freely, while others need licensing. The importer needs to consult the Export Import (EXIM) policy in force to know whether the goods that he or she wants to import are subject to import licensing.

(iii) Obtaining foreign exchange: Since the supplier in the context of an import transaction resides in a foreign country, he/she demands payment in a foreign currency. Payment in foreign currency involves exchange of Indian currency into foreign currency

Major Documents needed in Connection with Export Transaction

A. Documents related to goods Export invoice: Export invoice is a sellers' bill for merchandise and contains information about goods such as quantity, total value, number of packages, marks on packing, port of destination, name of ship, bill of lading number, terms of delivery and payments, etc.

*Packing list: A packing list is a statement of the number of cases or packs and the details of the goods contained in these packs. It gives details of the nature of goods which are being exported and the form in which these are being sent.

*Certificate of origin: This is a certificate which specifies the country in which the goods are being produced. This certificate entitles the importer to claim tariff concessions or other exemptions such as non-applicability of quota restrictions on goods originating from certain pre-specified countries. This certificate is also required when there is a ban on imports of certain goods from select countries.

*Certificate of inspection: For ensuring quality, the government has made it compulsory for certain products that these be inspected by some authorized agency. Export Inspection Council of India (EICI) is one such agency which carries out such inspections and issues the certificate that the consignment has been inspected as required under the Export (Quality Control and Inspection) Act, 1963, and satisfies the conditions relating to quality control and inspection as applicable to it, and is export worthy. Some countries have made this certificate mandatory for the goods being imported to their countries.

B. Documents related to shipment Mate's receipt: This receipt is given by the commanding officer of the ship to the exporter after the cargo is loaded on the

ship. The mate's receipt indicates the name of the vessel, berth, date of shipment, description of packages, marks and numbers, condition of the cargo at the time of receipt on board the ship, etc. The shipping company does not issue the bill of lading unless it receives the mate's receipt.

*Shipping Bill: The shipping bill is the main document on the basis of which customs office grants permission for the export. The shipping bill contains particulars of the goods being exported, the name of the vessel, the port at which goods are to be discharged, country of final destination, exporter's name and address, etc. Bill of lading: Bill of lading is a document wherein a shipping company gives its official receipt of the goods put on board its vessel and at the same time gives an undertaking to carry them to the port of destination. It is also a document of title to the goods and as such is freely transferable by the endorsement and delivery.

Airway Bill: Like a bill of lading, an airway bill is a document wherein an airline company gives its official receipt of the goods on board its aircraft and at the same time gives an undertaking to carry them to the port of destination. It is also a document of title to the goods and as such is freely transferable by the endorsement and delivery.

*Marine insurance policy: It is a certificate of insurance contract whereby the insurance company agrees in consideration of a payment called premium to indemnify the insured against loss incurred by the latter in respect of goods exposed to perils of the sea. Cart ticket: A cart ticket is also known as a cart chit, vehicle or gate pass. It is prepared by the exporter and includes details of the export cargo in terms of the shipper's name, number of packages, shipping bill number, port of destination and the number of the vehicle carrying the cargo.

C. Documents related to payment Letter of credit: A letter of credit is a guarantee issued by the importer's bank that it will honour up to a certain amount the payment of export bills to the bank of the exporter. Letter of credit is the most appropriate and secure method of payment adopted to settle international transactions

Bill of exchange: It is a written instrument whereby the person issuing the

instrument directs the other party to pay a specified amount to a certain person or the bearer of the instrument. In the context of an export-import transaction, bill of exchange is drawn by exporter on the importer asking the latter to pay a certain amount to a certain person or the bearer of the bill of exchange. The documents giving title to the export consignment are passed on to the importer only when the importer accepts the order contained in the bill of exchange.

Bank certificate of payment: Bank certificate of payment is a certificate that the necessary documents (including bill of exchange) relating to the particular export consignment has been negotiated (i.e., presented to the importer for payment) and the payment has been received in accordance with the exchange control regulations.

(vii) Receipt of shipment advice:

After loading the goods on the vessel, the overseas supplier dispatches the shipment advice to the importer. A shipment advice contains information about the shipment of goods. The information provided in the shipment advice includes details such as invoice number, bill of lading/airways bill number and date, name of the vessel with date, the port of export, description of goods and quantity, and the date of sailing of vessel.

(viii) Retirement of import documents:

Having shipped the goods, the overseas supplier prepares a set of necessary documents as per the terms of contract and letter of credit and hands it over to his or her banker for their onward transmission and negotiation to the importer in the manner as specified in the letter of credit. The set of documents normally contains bill of exchange, commercial invoice, bill of lading/airway bill, packing list, certificate of origin, marine insurance policy, etc. The bill of exchange accompanying the above documents is known as the documentary bill of exchange. As mentioned earlier in connection with the export procedure, documentary bill of exchange can be of two types: documents against payment (sight draft) and documents against acceptance (usance draft). In the case of sight draft, the drawer instructs the bank to hand over the relevant documents to the importer only against payment. But in the case of usance

(iv) Placing order or indent:

After obtaining the import licence, the importer places an import order or indent with the exporter for supply of the specified products. The import order contains information about the price, quantity size, grade and quality of goods ordered and the instructions relating to packing, shipping, ports of shipment and destination, delivery schedule, insurance and mode of payment. The import order should be carefully drafted so as to avoid any ambiguity and consequent conflict between the importer and exporter.

(v) Obtaining letter of credit:

If the payment terms agreed between the importer and the overseas supplier is a letter of credit, then the importer should obtain the letter of credit from its bank and forward it to the overseas supplier. As stated previously, a letter of credit is a guarantee issued by the importer's bank that it will honour payment up to a certain amount of export bills to the bank of the exporter. Letter of credit is the most appropriate and secured method of payment adopted to settle international transactions. The exporter wants this document to be sure that there is no risk of non-payment.

(vi) Arranging for finance:

The importer should make arrangements in advance to pay to the exporter on arrival of goods at the port. Advanced planning for financing imports is necessary so as to avoid huge demurrages (i.e., penalties) on the imported goods lying unclear at the port for want of payments. draft, the drawer instructs the bank to hand over the relevant documents to the importer against acceptance of the bill of exchange. The acceptance of bill of exchange for the purpose of getting delivery of the documents is known as retirement of import documents. Once the retirement is over, the bank hands over the import documents to the importer.

Foreign Trade Promotion Measures and Schemes

Details of various trade promotion measures and schemes available to business firms

to facilitate their export and import operations are announced by the government in its export-import (EXIM) policy. Major trade promotion measures (especially those related to exports) are as follows:

(i) Duty drawback scheme: Since goods meant for exports are not consumed domestically, these are not subjected to payment of various excise and customs duties. Any such duties paid on export goods are, therefore, refunded to exporters on production of proof of exports of these goods to the concerned authorities. Such refunds are called duty draw backs. Some major duty draw backs include refund of excise duties paid on goods meant for exports, refund of customs duties paid on raw materials and machines imported for export production. The latter is also called customs drawback.

(ii) Export manufacturing under bond scheme: This facility entitles firms to produce goods without bill of exchange is drawn by the exporter on the importer asking the latter to pay a certain amount to a certain person or the bearer of the bill of exchange. The documents giving title to the export consignment are passed on to the importer only when the importer accepts the order contained in the bill of exchange.

* Sight draft: It is a type of bill of exchange wherein the drawer of the bill of exchange instructs the bank to hand over the relevant documents to the importer only against payment.

*Dock challan: Dock charges are to be paid when all the formalities of the customs are completed. While paying the dock dues, the importer or his clearing agent specifies the amount of dock dues in a challan or form which is known as dock challan.

(iii) Exemption from payment of sales taxes:

Goods meant for export purposes are not subject to sales tax. Even for a long time, income derived from export operations had been exempt from payment of income tax. Now this benefit of exemption from income tax is available only to 100 per cent Export Oriented Units (100 per cent EOUs) and units set up in Export Processing Zones (EPZs)/Special Economic Zones (SEZs) for select years.

We shall shortly discuss about the 100 per cent Export Oriented Units (100 per cent EOUs) and units set up in Export Processing Zones (EPZs)/Special Economic Zones (SEZs) in the succeeding paragraphs.

(iv) Advance license scheme: It is a scheme under which an exporter is allowed duty free supply of domestic as well as imported inputs required for the manufacture of export goods. As such the exporter is not required to pay customs duty on goods imported for use in the manufacture of export goods. The advance licenses are available to both the types of exporters — those who export on a regular basis and also to those who export on an adhoc basis. The regular exporters can avail such licenses against their production programmes. The firms exporting intermittently can also obtain these licenses against specific export orders.

(v) Export Promotion Capital Goods Scheme (EPCG): The main objective of this scheme is to encourage the import of capital goods for export production. This scheme allows export firms to import capital goods at negligible or lower rates of customs duties subject to actual user condition and fulfillment of specified export obligations.

(vi) Scheme of recognising export firms as export house, trading house and superstar trading house: With an objective to promote established exporters and assist them in marketing their products in international markets, *the government grants the status of Export House, Trading House, Star Trading House to select export firms. This status is granted to a firm on its achieving a prescribed average export of performance in past select years. Besides attaining a minimum of past average export performance, such export firms have to also fulfill other conditions as laid down in the import-export policy. Various categories of export houses have been recognised with a view to building marketing infrastructure and expertise required for export promotion. These houses are given national recognition for export promotion. They are required to operate as highly professional and dynamic institutions and act as an important instrument of export growth.

(vii) Export of Services: In order to boost the export of services, various categories

of service houses have been recognised. These houses are recognised on the basis of the export performance of the service providers. They are referred to as Service Export House, International Service Export House, International Star Service Export House based on their export performance.

(viii) Export finance: Exporters require finance for the manufacture of goods. Finance is also needed after the shipment of the goods because it may take sometime to receive payment from the importers. Therefore, two types of export finances are made available to the exporters by authorized banks. They are termed as pre-shipment finance or packaging credit and post shipment finance. Under the pre shipment finance, finance is provided to an exporter for financing the purchase, processing, manufacturing or packaging of goods for export purpose.

(ix) *Export Processing Zones (EPZs): Export Processing Zones are industrial estates, which form enclaves from the Domestic Tariff Areas (DTA). These are usually situated near seaports or airports. They are intended to provide an internationally competitive duty free environment for export production at low cost.

(x) *100 per cent Export Oriented Units (100 per cent EOUs): The 100 per cent Export Oriented Units scheme, introduced in early 1981, is complementary to the EPZ scheme. It adopts the same production regime, but offers a wider option in location with reference to factors like source of raw materials, ports, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. EOUs have been established with a view to generating additional production capacity for exports by providing an appropriate policy framework, flexibility of operations and incentives.

Organisational Support The Government of India has also set up from time- to-time various institutions in order to facilitate the process of foreign trade in our country. Some of the important institutions are as follows:

1. Department of Commerce: The Department of Commerce in the Ministry of Commerce, Government of India, is the apex body responsible for the country's external trade and all matters connected with it. This may be in the form of

increasing commercial relations with other countries, state trading, export promotional measures and the development, and regulation of certain export oriented industries and commodities.

2. Export Promotion Councils (EPCs): Export Promotion Councils are non-profit organisations registered under the Companies Act or the Societies Registration Act, as the case may be. The basic objective of the export promotion councils is to promote and develop the country's exports of particular products falling under their jurisdiction. At present, there are 21 EPC's dealing with different commodities. Commodity Boards: Commodity Boards are the boards which have been specially established by the Government of India for the development of production of traditional commodities and their exports. These boards are supplementary to the EPCs. The functions of commodity boards are similar to those of EPCs. At present there are seven commodity boards in India: Coffee Board, Rubber Board, Tobacco Board, Spice Board, Central Silk Board, Tea Board, and Coir Board.

3. Export Inspection Council (EIC): The Export Inspection Council of India was setup by the Government of India under Section 3 of the Export Quality Control and Inspection Act 1963. The council aims at sound development of export trade through quality control and pre-shipment inspection. The council is an apex body for controlling the activities related to quality control and pre-shipment inspection of commodities meant for export.

4. Trade Development Authority and Trade Fair Authority of India. ITPO is a service organisation and maintains regular and close interaction with trade, industry and Government. It serves the industry by organising trade fairs and exhibitions—both within the country and outside, It helps export firms participate in international trade fairs and exhibitions, developing exports of new items, providing support and updated commercial business information.

5. Indian Institute of Foreign Trade (IIFT): The Indian Institute of Foreign Trade is an institution that was setup in 1963 by the Government of India as an autonomous body registered under the Societies Registration Act with the prime objective of professionalising the country's foreign trade management. It has recently been recognised as Deemed University. It provides training in international trade, conduct

researches in areas of international business, and analysing and disseminating data relating to international trade and investments.

6. Indian Institute of Packaging (IIP): The Indian Institute of Packaging was set up as a national institute jointly by the Ministry of Commerce, Government of India, and the Indian Packaging Industry and allied interests in 1966. Its headquarters and principal laboratory is situated at Mumbai and three regional laboratories are located at Kolkata, Delhi and Chennai. It is a training-cum-research institute pertaining to packaging and testing. It has excellent infrastructural facilities that cater to the various needs of the package manufacturing and package user industries.

7. State Trading Organisations: A large number of domestic firms in India found it very difficult to compete in the world market. At the same time, the existing trade channels were unsuitable for promotion of exports and bringing about diversification of trade with countries other than European countries. It was under these circumstances that the State Trading Organisation (STC) was setup in May 1956. The main objective of the STC is to stimulate trade, primarily export trade among different trading partners of the world.

INTERNATIONAL TRADE INSTITUTIONS AND TRADE AGREEMENTS

The First World War (1914-1919) and the Second World War (1939-45) were accompanied by massive destruction of life and property the world over. Almost all the economies of the world were adversely affected. Due to scarcity of resources, countries were not in a position to take up any reconstruction or developmental works. Even the international trade amongst nations got adversely affected because of the disruption of the world’s currency system. There was no system of generally accepted exchange rate. It was at that juncture that representative of forty-four nations under the leadership of J.M. Keynes — a noted economist joined together at Bretton Woods, New Hampshire to identify measures to restore peace and normalcy in the world. The meeting was concluded with the setting up of three international institutions, namely the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD) and the International Trade Organisation (ITO). They considered these three organisations as three pillars of economic development of the world.

This arrangement came to be known as the General Agreement for Tariffs and Trade (GATT). India was one of the founding members of these three international bodies. The major objectives and functions of these three international institutions are discussed in more detail in the following sections.

Export House

MEANING

Export as a business is growing across multiple sectors. There are always a number of countries which are under developing stages and a lot of material to these countries goes from developed nations. At the same time, agriculture and other such produce is exported from developing nations to developed nations. In short, there is always import and export happening. At such junctures, Export houses play an important role.

Major functions which export houses are expected to carry out in the market.

1) Representation

The first function is to represent the parent manufacturing company in the market where the product is being exported. In overseas market, the manufacturing company might not have any sales presence or market presence. The export house takes care of all that via representing itself as the main contact point for the manufacturer.

2) Competitive and market intelligence

An export house not only carries out sales work or representations for the manufacturer, gathering market intelligence, competitive intelligence and the work of other competitors in the market is also a task carried out by the export house. This flow of information happens naturally via agents or distributors to the export house.

3) Procedures and documentation

In the export business, there are many procedures and documentation involved. Export is the interaction point of 2 different countries with 2 different laws and procedures. As a result, both laws and both procedures have to be followed by exports. In fact, more then focus on export, many exporters complain that their core focus is on documentation so that the export is not rejected or any problems do not arise in the target country.

4) Market penetration

In sectors like Pharmaceuticals and chemicals, export houses are chosen on the basis of their market penetration in the target country. Each export house has a setup of agents and distributors. The more the market coverage of an export house, the more will be the market penetration. Hence, ensuring that they are present widely in the target country is a service which has to be provided by the export house.

5) Manpower for Order management

Collecting orders, ensuring the papers are in place, arranging finance or taking care of credit, shipping, docking and undocking, labour and law issues – There are many things which take place in a single order when export is ordered. It runs like a well oiled machine and for this you require huge manpower. This manpower is provided by the export house in each stage of the export.

6) Arbitration, Finance and credit

There are a few types of payments and handling which are used in export. In handling, One is FOB origin means seller is liable only till material is shipped. FOB destination means seller is liable till buyer receives the goods. In such cases, there is huge financial implications, arbitrations and credit terms involved. Such risks are borne by the Export houses in many cases.

Advantages of using Export houses

Export houses are most important in the following conditions

1. Lack of resources – When the parent company has a lack of resources which includes manpower, finance or know how to establish in the new country, then it will most likely use Export houses to do its work.
2. Small-scale operations – If a large company wants to set up small-scale operations in a new country, then instead of training and recruiting a local team in the target country, it can simply outsource the task to an experienced export house in the target country.
3. Expertise – Many time, even if the manufacturer has an in-house team overseas, still export houses might be used because of their expertise in this segment. This is very true for products which are highly technical in nature or which are controlled substances.

4. **Marketing** – Manufacturers who are product oriented and don't have the willingness or the desire to market themselves in a new territory might outsource the work to export houses so that they can in turn expand.

Disadvantages of using Export houses

1. **The manufacturer is not in contact with target market** – A major problem with using export houses is that the manufacturer himself is not in touch with the target markets. As a result, he lacks the on-field knowledge which the export houses have.
2. **Future trends cannot be observed** – A manufacturer can notice trends taking place. And even though he might be getting truckloads of information from the export house, the export house might fail to notice the actual change in trend or it may not have as keen eyes for products as the manufacturer. Thus, the manufacturer may miss out on opportunities.
3. **Huge adaptation curve for the manufacturer** – If the manufacturer gets used to the export house, and then decides to launch his own in-house team, there will be a huge adaptation curve for the in-house team. This is because the in-house team will have to start brand new with fresh distributors and agents.

Obtaining Export House Certificate or Status

An exporter involved in the export of goods or services can obtain an export house certificate. An applicant would be eligible for and be categorized upon reaching certain minimum export performance in the current and previous two financial years. The calculation of Export performance is on the basis of FOB (Free on Board) value of export earnings in free foreign exchange. In case of deemed exports, it converts the FOR value of exports in Indian rupees into USD at the exchange rate by the Central Board of Excise and Customs, as applicable for 1st April of each financial year.

Export House Status Eligibility Criteria

Based on the export performance of an exporter, the status category is provided as follows:

- One Star Export House: USD3 – USD25 Million Export Performance
- Two Star Export House: USD25 – USD100 Million Export Performance
- Three Star Export House: USD100 – USD500 Million Export Performance
- Four Star Export House: USD500 – USD2000 Million Export Performance
- Five Star Export House: USD2000 Million and above Export Performance

For granting export house status, export performance is necessary for at least two out of three years.